

**BUDGET PREPAY, INC.**  
**dba BUDGET MOBILE**

Independent Accountant's Report

**CALIFORNIA UNIVERSAL LIFELINE TELEPHONE  
SERVICE PROGRAM**

*July 1, 2015, through June 30, 2016*



**BETTY T. YEE**  
California State Controller

March 2019



**BETTY T. YEE**  
California State Controller

March 22, 2019

Daniel Hyde, Chief Executive Officer  
Budget Prepay, Inc. dba Budget Mobile  
c/o David LaFuria  
Lukas, LaFuria, Gutierrez & Sachs, LLP  
8300 Greensboro Drive, Suite 1200  
Tysons, VA 22102

Dear Mr. Hyde:

The State Controller's Office has completed an examination of Budget Prepay, Inc. dba Budget Mobile's (Budget Prepay) compliance with the rules, regulations, and requirements of the California Universal LifeLine Telephone Service Program (Program) solely related to Program costs and activities for the period of July 1, 2015, through June 30, 2016. Our examination included reviewing the reimbursement claims that Budget Prepay filed with the California Public Utilities Commission (CPUC) to verify that they complied with all applicable CPUC and federal laws and regulations, including, but not limited to, General Order (GO) 153.

We identified material noncompliance with the rules, regulations, and requirements of the Program, including GO 153, applicable to Budget Prepay during the period of July 1, 2015 through June 30, 2016. Budget Prepay did not comply with GO 153 and other applicable requirements to support and justify costs recovered from the California LifeLine Fund during the engagement period and to retain all records related to Program claims for a period of five years after submitting its claims. Such noncompliance occurred because Budget Prepay did not provide requested subscriber data supporting material amounts of the costs it claimed from the California LifeLine Fund during the examination period. In addition, Budget Prepay also did not provide requested information supporting payment of incremental administrative costs applicable to its California subscribers. Therefore, Budget Prepay's reimbursement claims, individually or in the aggregate, may contain misstatements that could be material and pervasive. We also identified two internal control deficiencies that we considered to be material weaknesses in internal control.

In addition, Budget Prepay did not provide the written representation that we requested.

Our report includes additional information as requested by the CPUC.

If you have any questions, please contact Jim Venneman, Audit Manager, Compliance Audits Bureau, by telephone at (916) 322-9887.

Sincerely,

*Original signed by*

JIM L. SPANO, CPA  
Chief, Division of Audits

JLS/as

cc: Jonathan Lakritz, Program Manager  
California Public Utilities Commission

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**BETTY T. YEE**  
**California State Controller**

INDEPENDENT ACCOUNTANT'S REPORT

Daniel Hyde, Chief Executive Officer  
Budget Prepay, Inc. dba Budget Mobile  
c/o David LaFuria  
Lukas, LaFuria, Gutierrez & Sachs, LLP  
8300 Greensboro Drive, Suite 1200  
Tysons, VA 22102

The State Controller's Office has examined Budget Prepay, Inc. dba Budget Mobile's (Budget Prepay) compliance with the rules, regulations, and requirements of the California Universal LifeLine Telephone Service Program (Program) solely related to Program costs and activities for the period of July 1, 2015, through June 30, 2016. Our examination included reviewing the reimbursement claims that Budget Prepay filed with the California Public Utilities Commission (CPUC) to verify that it complied with all applicable CPUC and federal laws and regulations, including, but not limited to, General Order (GO) 153. Management of Budget Prepay is responsible for Budget Prepay's compliance with the specified requirements. Our responsibility is to express an opinion on Budget Prepay's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management complied, in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether Budget Prepay complied with the rules, regulations, and requirements of the Program. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that our examination provides a reasonable basis for our opinion.

Attestation standards established by the AICPA require that we request a written statement from Budget Prepay stating that the Program-related costs and activities that we examined have been accurately measured or evaluated. We requested that Budget Prepay provide such a written statement; however, Budget Prepay refused to do so.

Our examination does not provide a legal determination on Budget Prepay's compliance with specified requirements.

Our examination disclosed the following material noncompliance with the rules, regulations, and requirements of the Program, including, but not limited to, GO 153, applicable to Budget Prepay during the period of July 1, 2015, through June 30, 2016. Budget Prepay did not comply with GO 153 and other applicable requirements to support and justify costs recovered from the California LifeLine Fund during the engagement period and to retain all records related to Program claims for a period of five years after submitting its claims. Such noncompliance occurred because Budget Prepay did not provide requested subscriber data supporting material amounts of the costs it claimed from the California LifeLine Fund during the examination period. In addition, Budget Prepay did not provide requested information supporting incremental administrative costs applicable to its California subscribers. Therefore, Budget Prepay's reimbursement claims, individually or in the aggregate, may contain misstatements that could be material and pervasive. These issues are described more fully in Findings 1 and 2 of the Findings and Recommendations section of the report.

In our opinion, because of the effect of the noncompliance described in the preceding paragraph, Budget Prepay has not complied with the aforementioned requirements for the period of July 1, 2015, through June 30, 2016.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on Budget Prepay's compliance with the rules, regulations, and requirements of the Program; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the subject matter. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether Budget Prepay complied with the rules, regulations, and requirements of the Program related to Program costs and activities for the period of July 1, 2015, through June 30, 2016, and not for the purpose of expressing an opinion on the internal control over compliance with the rules, regulations, and requirements of the Program or on compliance and other matters; accordingly we express no such opinion. Our examination disclosed certain findings that we are required to report under *Government Auditing Standards*; those findings are described in the attached Findings and Recommendations section as Findings 3 and 4.

This report is intended solely for the information and use of Budget Prepay, the CPUC, and the SCO, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Original signed by*

JIM L. SPANO, CPA  
Chief, Division of Audits

Sacramento, California

March 22, 2019

# Executive Summary

The California Public Utilities Commission (CPUC) contracted with the State Controller's Office (SCO) to conduct an examination of Budget Prepay, Inc. dba Budget Mobile's (Budget Prepay) compliance with the rules, regulations, and requirements of the California Universal LifeLine Telephone Service Program (Program) solely related to Program costs and activities for the period of July 1, 2015, through June 30, 2016. Our examination included reviewing the reimbursement claims that Budget Prepay filed with the CPUC to verify that they complied with all applicable CPUC and federal laws and regulations, including, but not limited to, General Order (GO) 153. We based our examination on 17 specific objectives identified by the CPUC, which we identify in the Examination Purpose, Scope, and Objectives section of this report.

During our examination, we identified four instances of engagement objectives (Objectives 5, 6, 11, and 16) that we could not complete. This occurred as a result of Budget Prepay's noncompliance with certain provisions of GO 153 and Public Utilities Code (PUC) sections 581 and 582, specifically Budget Prepay's refusal to provide any of the data that we requested. We also identified two material weaknesses in internal control (Objectives 2 and 3). These observations are included in the Findings and Recommendations section of the report.

The following is a summary of our findings:

- Budget Prepay did not comply with PUC sections 581 and 582, and GO 153 sections 9.11.1 and 13.9 because it did not provide any evidence for us to verify its compliance with certain CPUC regulations and Title 47, U.S. *Code of Federal Regulations* (CFR) related to engagement Objectives 5, 6, 11, and 16. The evidence not provided constitutes subscriber data and incremental administrative cost information supporting a material amount of the costs that Budget Prepay claimed and was reimbursed from the California LifeLine Fund (Fund) during the examination period;
- Budget Prepay did not have written internal control procedures to ensure compliance with GO 153 sections 5.1.7 through 5.1.9 to detect and prevent multiple Program subscribers residing at the same service address (Objective 2); and
- Budget Prepay did not have written internal control procedures to ensure compliance with 47 CFR 54.405(e)(3). The regulation requires wireless carriers to notify subscribers after detecting that they have 60 consecutive days of non-usage. If the subscribers fail to use program services during an additional 30 day notification period, the carrier is required to remove the inactive subscriber from the program (Objective 3). Note—47 CFR 54.405(e)(3) has been amended four times, beginning on June 22, 2015, to change the non-usage requirement from 60 days to 30 days and to change the customer notice period from 30 days to 15 days.

We determined that Budget Prepay complied with engagement Objectives 1, 7, 8, and 12. We also determined that engagement Objectives 9, 10, 13, 14, 15, and 17 were not applicable to Budget Prepay during the engagement period. As we did not identify any adjustments to claimed costs, Objective 4 was not applicable.

In addition to the instances of noncompliance described in our findings, Budget Prepay did not provide the written representation that we requested.

## **Background**

### California Universal LifeLine Telephone Service Program

The Program is a state program, established by the CPUC, that provides discounted home telephone and cellular telephone services to eligible households. The discounted services help consumers reduce the costs associated with their telephones. Only one discount per household is allowable (except for households with teletypewriter users and Deaf and Disabled Telecommunications Program participants). Each household must choose to receive the discount either on a traditional landline telephone or a cellular telephone; households may not receive discounts on both. The CPUC contracts with a third-party California LifeLine Administrator (CLA) to determine eligibility of potential beneficiaries of wireless free-telephone services.

GO 153 provides rules and procedures for the administration and implementation of the Program, which is intended to provide low-income households with access to affordable basic telephone service. The order applies to both wireline and wireless telephone service providers. A contractual agreement between the CPUC and the SCO authorizes the SCO to conduct attestation engagements of wireless carriers selected by the CPUC for their participation in the Program.

Service providers apply the discount to their eligible customers and submit reimbursement claims to the CPUC. Service providers are responsible for supporting and justifying all costs and lost revenues that they seek to recover from the Fund. A wireless carrier may recover from the Fund the reasonable costs that it incurs to provide the Program to the extent that such costs are:

- Directly attributable to the Program;
- Would not otherwise be incurred in the absence of the Program;
- Not recovered from other sources, such as the rates and charges paid by Program subscribers, the utility's general rates, or subsidies from the Federal LifeLine Program; and
- Specified in GO 153 sections 9.3 and 9.4.

The CLA receives and processes customer applications for Program services and determines applicants' eligibility. The CLA also performs recertification services. Conduent is the CLA contracted by the CPUC, and was also contracted during the examination period.



### Budget Prepay

Budget Prepay operated its Program under the name of Budget Mobile during the engagement period. Budget Prepay's main office is located in Bossier City, Louisiana. The company operated its wireless system in 34 states and Puerto Rico, using the underlying networks of Sprint, T-Mobile, and Verizon Wireless. The CPUC approved Budget Prepay as a reseller of Commercial Mobile Radiotelephone Service in California in September 2011 and approved the company's entry into the Program in May 2014. The CPUC subsequently approved 19 different wireless plans that the company offered to its customers under the Program. On April 24, 2017, Budget Prepay submitted a request to discontinue its wireless telephone service plans offered under the Program, citing its inability to compete with larger wireless carriers. The CPUC subsequently approved that request, pursuant to Resolution No. T-17596 dated May 31, 2018. The company submitted its last reimbursement claim to the CPUC for the month of September 2017.

When we conducted our entrance conference with Budget Prepay on November 7, 2017, the only remaining staff still employed by the company were its Chief Executive Officer, Chief Financial Officer, and Compliance Manager. The Compliance Manager informed us that the company had archived all of its reports and accounting records onto an external hard drive. We had previously received communication from Budget Prepay's legal counsel, dated October 20, 2017, stating that the company disagreed with the CPUC's conclusion that PUC section 274 required an audit of the company's Program claims, but intended to work with the SCO and the CPUC by responding to audit inquiries and document requests. The company's attorney also explained that "Budget [Prepay] expects to close its offices and terminate the few remaining employees by November/December 2017. Accordingly, it will not be feasible for Budget [Prepay] to continue to participate in the Audit after December 1, 2017." In addition, the attorney advised us to forego our scheduled site visit, as there were no ongoing operations for the auditor to observe.

During the period of July 1, 2015, through June 30, 2016, Budget Prepay claimed reimbursement for a subscriber base ranging from 427,000 subscribers in July 2015 to 280,293 subscribers in June 2016. Budget Prepay submitted claims totaling \$ 65,285,061, and was fully reimbursed from the Fund.

## **Examination Purpose, Scope, and Objectives**

### Purpose and Scope

The purpose of our examination was to provide reasonable assurance that Budget Prepay complied with the rules, regulations, and requirements of the Program solely related to Program-related costs and activities for the period of July 1, 2015, through June 30, 2016. Our examination included reviewing the reimbursement claims that Budget Prepay filed with the CPUC, to verify that it complied with all applicable CPUC and federal laws and regulations, including GO 153.

### Objectives

Our examination engagement included the following 17 objectives:

1. Determine whether Budget Prepay included in its claims only those subscribers who were approved by the CLA as meeting the eligibility criteria for obtaining and retaining Program benefits.
2. Determine whether Budget Prepay had effective monitoring controls in place to identify obvious instances of claiming reimbursement for costs of providing the Program discount to more than one economic household at the same address.
3. Identify and document the internal control processes used by Budget Prepay to ensure timely compliance with Program requirements for disconnecting inactive accounts and subscribers.
4. If the engagement reveals over-claimed amounts of Program support from the Fund, describe each occurrence, state the over-claimed amount, and calculate interest from the date of payment to the date of the audit report.
5. Determine the fiscal effect of Budget Prepay claiming reimbursement of the \$39 from the Fund for connection or conversion charges of Program subscribers who failed to qualify for, or were removed from, the Program.
6. Determine the fiscal effect of Budget Prepay correctly claiming reimbursement for the discount for the pre-paid telephone service based on the date of approval notification or the date that Program service was activated, whichever was later.
7. Determine whether Budget Prepay correctly claimed reimbursement for providing the Program discount on recurring charges.
8. Determine whether Budget Prepay correctly claimed reimbursement of \$39 per participant for providing the Program discount on connection and activation charges.
9. Determine whether Budget Prepay correctly claimed reimbursement for the public-purpose Program surcharges, federal excise tax, local franchise taxes, the State 911 tax, and the CPUC user fee on the subscribers' intrastate Program billing, which Program subscribers were exempt from paying.
10. Determine whether Budget Prepay paid the appropriate taxing authorities the applicable taxes, fees, and surcharges reimbursed from the Fund if it received reimbursement from the Fund for federal excise tax, local taxes, fees and surcharges pertaining to the Program discount and claimed that they paid these taxes, fees, and surcharges on behalf of their Program subscribers.
11. Determine whether Budget Prepay claimed reimbursement for administrative expenses that were clearly not incremental expenses.
12. Determine whether Budget Prepay offered plans approved by the CPUC.

13. Determine whether Budget Prepay correctly provided a discount on their nonrecurring service connection charge for the initial activation of a single wireless telephone connection for the approved Program subscribers.
14. Determine whether, before providing the Program discount, Budget Prepay charged the same nonrecurring and recurring service rates for both Program subscribers and other retail customers.
15. Determine whether Budget Prepay correctly provided discounts on its qualifying wireless telephone service plans for Program subscribers for recurring charges.
16. Determine the fiscal effect if Budget Prepay did not disconnect subscribers with inactivity (no service used) during a consecutive 60-day period who were notified of such non-usage and who failed to use Program services during the 30-day notice period.
17. Determine whether Budget Prepay incorrectly charged Program subscribers for the public-purpose Program surcharges, federal excise tax, local franchise taxes, the State 911 tax, and the CPUC user fee on the subscribers' intrastate Program billing, which Program subscribers were exempt from paying.

Objectives 9, 10, 13, 14, 15, and 17 did not apply to Budget Prepay because its reimbursement claims did not include the identified items. As we did not identify any adjustments to claimed costs, Objective 4 was not applicable.

To achieve our examination objectives, we:

- Reviewed the Program reimbursement claims that Budget Prepay filed during the examination period to determine whether they complied with all applicable CPUC and federal laws and regulations, including GO 153;
- Completed an internal control questionnaire by interviewing key Budget Prepay staff members. Discussed the claim preparation process with key staff members to determine what information was obtained, who obtained it, and how it was used;
- Reviewed the eligibility of claimed costs;
- Reviewed Budget Prepay's existing internal controls and tested them to determine whether they adequately ensured compliance with Program rules and regulations;
- Reviewed the eligibility of Budget Prepay's Program subscribers; and
- Performed a detailed review of all Program claims submitted by Budget Prepay to determine whether they were properly prepared and mathematically correct.

To address the examination objectives, we used various reports and records obtained from Budget Prepay, the CPUC, and the CLA, as detailed in Appendix A—List of Records Examined (by Objective).

## **Engagement Approach, including Detail Risk Assessment**

### Risk Assessment

We conducted a risk assessment to identify and discuss the risks of material misstatement, and to determine whether we needed to perform additional examination work to mitigate such risk. We based our initial risk assessment on the provided documentation, as well as on interviews and inquiries with the CLA, Budget Prepay's Compliance Manager, and the CPUC. We reviewed our risk assessment and updated it as we gained knowledge. We based our risk assessment on analysis and data in the following areas that potentially posed a high risk at Budget Prepay:

- Lack of a reliable eligibility screening process, including creation of fraudulent applications and manipulation of qualifying data;
- Overstatement of the weighted average number of subscriptions;
- Duplicate subscriptions and unqualified subscribers included in reimbursement calculations;
- Unsubstantiated incremental administrative expenses;
- Unapproved service plans;
- Lack of previous audits of Budget Prepay's compliance with Program requirements; and
- Other considerations based on information provided by Budget Prepay that indicated other potential high-risk areas or the potential for fraud.

### *Other Risk Considerations*

We remained alert and watchful for any indications of high risk in other areas while carrying out fieldwork. Our fieldwork included discussions with Budget Prepay staff and reviews of documentation provided by Budget Prepay staff.

### Audit Reports

CPUC officials informed us that no CPUC audits of Budget Prepay have been conducted for the wireless portion of its business relating to the examination period. There have also been no Universal Service Administration Company audits of Budget Prepay's Program relating to the examination period. Budget Prepay officials informed us that, to their knowledge, no audits had ever been conducted that could have affected the carrier's compliance with CPUC and federal rules related to the Program for the examination period.

We noted that the CPUC's Consumer Protection and Enforcement Division (CPED) filed a protest to Budget Prepay's request dated April 27, 2017, to discontinue its wireless telephone service under the Program. In that protest, the CPED asserted that:

1. Budget Prepay abused the Program's enrollment process by improperly enrolling and collecting Program funds for 9,824 Program subscribers;

2. Budget Prepay failed to verify the residential addresses and other basic information of Program subscribers in violation of Program rules; and
3. Budget Prepay improperly collected almost \$1,000,000 from the Program Fund.

Budget Prepay and the CPUC ultimately agreed on a settlement for these issues, as noted in CPUC Resolution No. T-17596, dated May 31, 2018. Although the issues described in the CPED's protest did not affect any of the reimbursement claims filed with the CPUC by Budget Prepay during the examination period, we made note of these issues in our risk assessment for the examination.

#### Review of Internal Control Questionnaire

To determine the adequacy of Budget Prepay's internal controls over compliance with Program requirements, we requested that Budget Prepay complete our internal control questionnaire. We inquired about Budget Prepay's processes for the activities of:

- Compiling and submitting Program subscriber information to the CPUC;
- Compiling, calculating, reviewing, and recording the Program claim form; and
- Receiving and recording the Program claim payments.

Budget Prepay's Compliance Director completed our Internal Control Questionnaire. The responses indicated that the Director drafted the Program claims and approved them by signing the claims. The Director also identified key controls by asserting that Budget Prepay:

- Maintained established written procedures for approving new applicants to:
  - Determine eligibility;
  - Identify inactive subscribers; and
  - Ensure that existing subscribers were recertified using the Program criteria;
- Required valid unexpired identification from Program applicants to enroll in the Program;
- Interfaced with the CLA to provide subscriber information, including their names, addresses, dates of birth, and last four digits of their social security numbers; and
- Used Lexus Nexus to ensure the accuracy of Program subscriber identity information.

The Compliance Director's responses also identified the following internal control weaknesses:

- There were no written internal control procedures to ensure that Program subscribers were already receiving "wireline" discounts;

- Only the Compliance Director reviewed the Program reimbursement claims for accuracy;
- There were no written procedures to ensure that after identification, inactive subscribers were reported to the CLA and disconnected; and
- The company did not measure the turnaround time between identification of inactive subscribers and service disconnection.

#### Initial Review of the Monthly Program Claim Forms

We reviewed all of the monthly Program claims submitted by Budget Prepay for the period of July 1, 2015, through June 30, 2016, to determine whether Budget Prepay filed its Program claim forms in a timely manner, and whether they contained all of the necessary elements and were mathematically accurate.

We also reviewed the applicable supplemental documentation supporting the claims, and interviewed Budget Prepay officials to determine how the company calculated the costs claimed during the audit.

Our initial review of the monthly Program claim forms provided by Budget Prepay and the CPUC showed no variances in the forms.

#### Review of Compliance with Enrollment and Related Requirements

We reviewed Budget Prepay's Program enrollment processes and procedures to determine whether they complied with subscriber enrollment requirements, including service elements offered and various notifications to subscribers. We interviewed Budget Prepay officials to obtain additional information and clarification regarding the subscriber enrollment process and notifications to subscribers and the CLA. In addition, we obtained computerized records, processes and procedures related to subscriber enrollment, and monitoring information provided by Budget Prepay employees to prospective subscribers.

## **Sampling and Methodology**

To complete our procedures for the stated examination objectives, we used a combination of judgmental and random sampling. We started by examining all of Budget Prepay's reimbursement claims for the examination period to determine whether they were filed in a timely manner, contained all of the necessary elements, and were mathematically accurate. We judgmentally selected applicable reports from various months and randomly selected subscriber information sufficient to complete our examination procedures. We detailed the populations of records that we used for these tests in Appendix A—List of Records Examined.

#### Sampling Risk

Sampling risk occurs whenever an evaluation involves a population subset instead of the entire population. Sampling risk represents the possibility that an auditor's conclusions based on the testing of a sample would be

different if the auditor had evaluated the entire population such that the auditor:

- Concludes that there were significant errors when in fact there were none; or
- Concludes that there were no significant errors when in fact there were such errors.

We mitigated the sampling risk by:

- Adhering to attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and
- Ensuring that our examination procedures were adequate and accounted for the potential of misinterpreted results from sample testing. These procedures included, but were not limited to, adequate communication with Budget Prepay, the CLA, and CPUC officials.

## **Views of Responsible Officials**

The SCO issued a draft report on February 20, 2019. David LaFuria, Budget Prepay's attorney, responded by email on March 4, 2019, indicating that he was unable to obtain a response from company management to the draft audit report.

## **Restricted Use**

This report is solely for the information and use of Budget Prepay, the CPUC, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JIM L. SPANO, CPA  
Chief, Division of Audits

March 22, 2019

# Findings and Recommendations

## **FINDING 1— Subscriber Data Not Provided (Objectives 5, 6, and 16)**

### Condition

Budget Prepay did not comply with GO 153 and PUC sections 581 through 582 requirements to support and justify costs recovered from the Fund during the engagement period, and to retain all records related to Program claims for a period of five years after submitting its claims.

Budget Prepay also did not provide requested subscriber records regarding the first call dates and last call dates for all subscribers. Specifically, Budget Prepay did not provide requested first call date information for its new and transferring subscribers or last call date information for its inactive subscribers included in the CLA's Weighted Average Reports (WAR) system during the examination period.

### Effect

The CLA tracks the weighted average number of active subscribers in its WAR system. The weighted average number of active subscribers each month provides the basis for Program reimbursement claims and supports a material amount of the costs claimed from the Fund during the examination period. Using the WAR system, we identified new subscribers during the examination period.

As Budget Prepay did not provide the requested subscriber data, we could not perform independent tests to determine whether:

- New subscribers actually made a first call to activate their Program service. Therefore, we could not determine the accuracy of the number of \$39 connection/conversion charges claimed (Objective 5);
- The weighted average number of subscribers eligible for the discount on pre-paid telephone service was accurate (Objective 6); and
- Budget Prepay followed CPUC regulations to remove subscribers who showed 60 days of continuous non-usage, were notified of such non-usage, and failed to use Program services during the 30-day notification period. (Objective 16).

As Budget Prepay did not provide the requested subscriber data, we were unable to verify the reliability of the weighted average number of active subscribers that Budget Prepay included in its claims during the engagement period. As a result, we were also unable verify the propriety of the amounts claimed for reimbursement.

### Cause

Budget Prepay ceased operation of its wireless program before we started the examination. As noted in the Background section, Budget Prepay's legal counsel previously advised us that "it will not be feasible for Budget [Prepay] to continue to participate in the Audit after December 1, 2017." During the entrance conference, company staff members advised us that



the company had stored its subscriber records from the examination period on an offsite data server. By the time we identified Budget Prepay's new subscribers and inactive subscribers during the examination period and requested information from Budget Prepay's subscriber records, company staff had been terminated; the company's attorney handled all documentation requests. The attorney stated in an email dated August 31, 2018, "the company stopped doing business a year ago, all of its employees were terminated shortly thereafter, and they are not able to be responsive to your recent request."

### Criteria

PUC section 581 states, in part:

Every public utility shall furnish to the commission in such form and detail as the commission prescribes all tabulations, computations, and all other information required by it to carry into effect any of the provisions of this part, and shall make specific answers to all questions submitted by the commission.

In addition, PUC section 582 states:

Whenever required by the commission, every public utility shall deliver to the commission copies of any or all maps, profiles, contracts, agreements, franchises, reports, books, accounts, papers, and records in its possession or in any way relating to its property or affecting its business, and also a complete inventory of all its property in such form as the commission may direct.

GO 153 section 9.11.1 states that California Universal LifeLine Telephone Service Providers are responsible for supporting and justifying all costs and lost revenues that they seek to recover from the Fund.

GO 153 section 13.9 states:

California LifeLine Service Providers shall retain all records related to a California LifeLine claim, including a true-up claim, for a period of five calendar years following the year in which the California LifeLine claim or true up claim is submitted, unless all or part of such records must be kept for a longer period of time pursuant to requirements promulgated elsewhere (e.g., record-retention requirements set forth in the uniform system of accounts). The records that California LifeLine Service Providers (or the California LifeLine Administrator) must retain for five calendar years include (i) Application and Renewal Forms, (ii) California LifeLine Claim Forms and workpapers supporting the claim forms, and (iii) other documents and information on which the California LifeLine Claim Forms and workpapers are based.

Objective 5 – CPUC Rulemaking Decision (D.) 14-01-036, Conclusion of Law No. 41 states that Program discounts should begin with the date of approval notification or the date Program service is activated, whichever is later. Ordering Paragraph (OP) No. 10 states that the reimbursement amount for service connection/activation is capped at \$39 per participant. Budget Prepay was only eligible to claim the \$39 reimbursement for subscribers who actually made a first call within the first 60 days of service.

Objective 6 – CPUC Rulemaking D. 14-01-036, section 4.19 [Prequalification Exemption for Pre-Paid Wireless Telephone Services] and Conclusions of Law No. 41 in that rulemaking state that all pre-paid and post-paid providers, regardless of the type of telephone service provided, must continue to work with the CLA to enroll and determine consumers’ Program or Federal LifeLine eligibility. The carrier should transmit the information necessary for the CLA to perform its functions, such as eliminating duplicates, determining the duration of the discounts, and enrolling and disenrolling subscribers. After receipt of a subscriber’s approval from the CLA, a pre-paid provider may begin providing discounted service to the subscriber. The discount for the pre-paid telephone service shall begin with the date of approval notification or the date Program or Federal LifeLine service is activated, whichever is later.

Objective 16 – Title 47 CFR 54.405(e)(3) [Carrier Obligation to Offer Lifeline – De-enrollment for non-usage] states that, if a LifeLine subscriber fails to use, for 60 consecutive days, a LifeLine service that does not require an eligible telecommunications carrier to assess and collect a monthly fee from its subscribers, the telecommunications carrier must provide the subscriber 30 days’ notice. The subscriber’s failure to use the LifeLine service within the 30-day notice period will result in service termination for non-usage under this paragraph. Eligible telecommunications carriers shall report to the CPUC annually the number of subscribers disenrolled for non-usage under this paragraph. This disenrollment information must be reported by month and submitted to the CPUC at the time an eligible telecommunications carrier submits its annual certification report. As previously noted, 47 CFR 54.405(e)(3) was amended to change the non-usage requirement from 60 days to 30 days and to change the notice period from 30 days to 15 days.

#### Recommendation

No recommendation is applicable, as Budget Prepay ceased participation in the Program and submitted its last reimbursement claim to the CPUC in September 2017. However, Budget Prepay should have provided information to its attorneys concerning the location of the subscriber records, thus ensuring that the records would be readily available during the record retention period specified in GO 153.

#### Budget Prepay’s Response

Budget Prepay did not respond to the finding.

## **FINDING 2— Payment of Administrative Expenses Not Supported (Objective 11)**

#### Condition

Budget Prepay did not provide payment information, such as canceled checks or evidence of wire transfer payments, to support that it actually paid invoices for costs included in its claims as incremental administrative expenses. Therefore, Budget Prepay did not comply with GO 153 requirements to support and justify costs recovered from the Fund during the engagement period, and to retain all records related to Program claims for a period of five years after submitting its claims. In addition, Budget Prepay did not explain why it included certain types of costs as

administrative costs in its claims, or provide a breakdown supporting administrative costs applicable only to its Program subscribers. Although the CPUC's standards regarding what qualifies as incremental administrative costs are not clearly stated, Budget Prepay is still required to fully support and justify the costs that it claimed during the examination period.

### Effect

Budget Prepay claimed the allowable amount of \$0.50 per subscriber for incremental administrative costs; however, Budget Prepay did not adequately justify claimed administrative expenses during our examination. Therefore, reimbursements claimed for administrative expenses may be unsupported and overstated.

### Cause

Budget Prepay ceased operation of its wireless program before we started the examination. Budget Prepay staff members advised us that the company had archived its accounting records from the examination period on an offsite data server. By the time we requested information supporting the payment of administrative costs incurred, the company had terminated all remaining staff; the company's attorney handled all documentation requests. The attorney stated that "the company stopped doing business a year ago, all of its employees were terminated shortly thereafter, and they are not able to be responsive to your recent request."

### Criteria

GO 153 section 9.11.1 states that California Universal LifeLine Telephone Service Providers are responsible for supporting and justifying all costs and lost revenues that they seek to recover from the Fund.

GO 153 section 13.9 states:

California LifeLine Service Providers shall retain all records related to a California LifeLine claim, including a true-up claim, for a period of five calendar years following the year in which the California LifeLine claim or true up claim is submitted, unless all or part of such records must be kept for a longer period of time pursuant to requirements promulgated elsewhere (e.g., record-retention requirements set forth in the uniform system of accounts). The records that California LifeLine Service Providers (or the California LifeLine Administrator) must retain for five calendar years include (i) Application and Renewal Forms, (ii) California LifeLine Claim Forms and workpapers supporting the claim forms, and (iii) other documents and information on which the California LifeLine Claim Forms and workpapers are based.

CPUC Rulemaking D. 14-01-036, section 4.4 [Monthly Service Rate Caps and Maximum Monthly Reimbursement Amounts for California LifeLine Wireline, Footnote 22] and CPUC Rulemaking D. 10-11-033, OP No. 18 establish the claims process and requirements for claiming reimbursement of costs incurred. They also state that reimbursement for administrative costs is based on the lesser of actual expenses incurred or the maximum administrative support amount of \$0.50 per Program subscriber. This

administrative reimbursement rate is available to all Program providers that include their Program's administrative cost information with their monthly reimbursement claims. In addition, OP No. 18 states that if a carrier is unable to adequately justify its claimed administrative expenses, but still seeks reimbursement for some of those expenses, it will be compensated at a rate no greater than \$0.03 per subscriber per month, which may result in a maximum total monthly support of \$21.93 instead of \$22.40.

#### Recommendation

No recommendation is applicable, as Budget Prepay ceased participation in the Program and submitted its last reimbursement claim to the CPUC in September 2017. However, Budget Prepay should have provided information to its attorneys concerning the location of the subscriber records, thus ensuring that the records would be readily available during the record retention period specified in GO 153.

#### Budget Prepay's Response

Budget Prepay did not respond to the finding.

**FINDING 3—  
Internal Control  
Deficiency —  
Identifying  
Multiple  
Subscribers at the  
Same Service  
Address  
(Objective 2)**

#### Condition

Budget Prepay did not have written internal control procedures to ensure that it allowed only one Program benefit to each economic unit (household).

#### Effect

Budget Prepay potentially allowed unqualified applicants to become Program subscribers. This control weakness potentially caused an overstatement of weighted averages and reimbursements received by Budget Prepay from the Fund during the examination period.

#### Cause

Budget Prepay noted in our internal control questionnaire that it did not have written internal control procedures for preventing one economic household from receiving more than one Program benefit. According to Budget Prepay's written verification process, the CPUC contracted with Xerox (later Conduent) as its CLA (third-party administrator). The CLA's responsibility was to review all applications, determine the eligibility of subscribers, and block possible duplicate accounts from receiving Program discounts.

The CLA generates a Head of Household Worksheet (HHWS) when its system identifies an address on an application as being used by another subscriber. However, the CLA informed Budget Prepay about duplication only indirectly, by sending status codes indicating that it had sent an HHWS to a subscriber after the fact. In addition, the CLA stated that it does not review completed forms for content or qualification, but only verifies that they have signatures. The CLA does not rely on the

subscriber's answers to the questions on the HHWS when verifying addresses to prevent providing the California LifeLine discount to more than one economic household at the same service address. We discussed this issue with the CPUC, and noted that it should consider adopting more robust policies and procedures for the CLA to use in preventing one economic household from receiving more than one Program benefit.

We reviewed a report provided by the CLA for December 2015 containing the names and addresses of Budget Prepay's 400,774 subscribers for that month. We reviewed 25.3% of the subscribers listed and noted multiple instances of 10 subscribers or more at a residential address and more than five subscribers at the same apartment address. In most instances, we found reasonable explanations for this occurrence, such as organizations assisting homeless or low-income individuals, group homes, and non-profit organizations. However, we noted six instances of multiple subscribers at locations appearing to be single-family homes or apartments in residential areas. This evidence indicates that Budget Prepay did not always verify duplicate addresses when the CLA detected them.

#### Criteria

CPUC General Order 153 sections 5.1.7 through 5.1.9 state that no member of a subscriber's family, residence, or household who resides with the subscriber is eligible for Program benefits. A subscriber is only eligible to receive two Program lines only if:

- The subscriber meets all Program eligibility criteria;
- A member of the subscriber's household is disabled and has immediate and continuous access within the household to a Text-Telephone Device (TTY); and
- The Deaf and Disabled Telecommunications Program issues the TTY or submits a medical certificate indicating the household member's need for a TTY.

All Program rules and regulations that apply to the one Program line must apply equally to the second Program line provided to a subscriber.

#### Recommendation

No recommendation is applicable, as Budget Prepay ceased participation in the Program and submitted its last reimbursement claim to the CPUC in September of 2017.

#### Budget Prepay's Response

Budget Prepay did not respond to the finding.

**FINDING 4—  
Internal Control  
Deficiency –  
Identifying and  
Removing Non-  
Active Subscribers  
from the Program  
(Objective 3)**

Condition

Budget Prepay did not have written internal control procedures to ensure that it reported inactive subscribers to the CLA and removed them from the Program after it detected 60 consecutive days of non-usage, notified the subscriber, and the subscriber continued such non-usage during a 30-day notice period.

Effect

Budget Prepay potentially allowed unqualified applicants to remain in the Program. Failure to remove inactive subscribers from the Program allowed them to remain in the CLA's WAR system. This control weakness potentially caused an overstatement of weighted averages and reimbursements received by Budget Prepay from the Fund during the engagement period.

Cause

Budget Prepay noted in our internal control questionnaire that it did not have written internal control procedures to ensure that it reported inactive subscribers to the CLA and removed them from the Program if, after Budget Prepay notified them that it had detected 60 consecutive days of non-usage, the subscribers continued not using Program services during the 30-day notice period. Budget Prepay stated that instead of written procedures, it "took measures" to ensure that it reported inactive subscribers to the CLA, without describing such measures. However, we could not test that assertion, as Budget Prepay was no longer in business when the examination began. Budget Prepay also stated in our questionnaire that it did not measure the turnaround time between identification of inactive subscribers and service disconnection.

Criteria

47 CFR 54.405(e)(3) [Carrier Obligation to Offer Lifeline – De-enrollment for non-usage] states:

Notwithstanding paragraph (e)(1) of this section, if a Lifeline subscriber fails to use, as "usage" is defined in § 54.407(c)(2), for 60 consecutive days a Lifeline service that does not require the eligible telecommunications carrier to assess or collect a monthly fee from its subscribers, an eligible telecommunications carrier must provide the subscriber 30 days' notice, using clear, easily understood language, that the subscriber's failure to use the Lifeline service within the 30-day notice period will result in service termination for non-usage under this paragraph. If the subscriber uses the Lifeline service within 30 days of the carrier providing such notice, the eligible telecommunications carrier shall not terminate the subscriber's Lifeline service. Eligible telecommunications carriers shall report to the Commission annually the number of subscribers de-enrolled for non-usage under this paragraph. This de-enrollment information must be reported by month and must be submitted to the Commission at the time an eligible telecommunications carrier submits its annual certification report pursuant to § 54.416.

As previously noted, 47 CFR 54.405(e)(3) has been amended four times, beginning on June 22, 2015, to change the non-usage requirement from 60 days to 30 days and to change the customer notice period from 30 days to 15 days.

Recommendation

No recommendation is applicable, as Budget Prepay ceased participation in the Program and submitted its last reimbursement claim to the CPUC in September 2017.

Budget Prepay's Response

Budget Prepay did not respond to the finding.

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## **Appendix A— List of Records Examined July 1, 2015, through June 30, 2016**

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### **Objective 1**

- Reimbursement Claims for July 1, 2015, through June 30, 2016 (obtained from the California Public Utilities Commission [CPUC])
- Weighted Average Summary Reports (WAR) for July 1, 2015, through June 30, 2016 (obtained from the third-party California LifeLine Administrator [CLA])
- Detailed WAR for July 1, 2015, through June 30, 2016 (obtained from the CLA)
- Recertification documentation for selected subscribers obtained from the CLA (documentation that a subscriber recertified on their anniversary date of service)
- Fifty subscriber enrollment packages provided by Budget Prepay, Inc. dba Budget Mobile (Budget Prepay). These packages included the subscribers':
  - Enrollment application;
  - Photo ID;
  - Proof of eligibility; and
  - Usage reports for July 1, 2015, through June 30, 2016.

### **Objective 2**

- TrueUp Reports for July 1, 2015, through June 30, 2016 (provided by the CLA)

### **Objective 3**

- Detailed WAR for July 1, 2015, through June 30, 2016 (obtained from the CLA)

### **Objective 4** – N/A

### **Objective 5**

- New Connection Reports for July 1, 2015, through June 30, 2016 (obtained from the CLA)

### **Objective 6**

- Summary WAR for July 1, 2015, through June 30, 2016 (obtained from the CLA)

### **Objectives 7 and 8**

- Reimbursement claims for July 1, 2015, through June 30, 2016 (obtained from the CPUC)
- Summary WAR for July 1, 2015, through June 30, 2016 (obtained from the CLA)
- Detailed WAR for July 1, 2015, through June 30, 2016 (obtained from CLA)
- New Connection Reports for July 1, 2015, through June 30, 2016 (obtained from the CLA)



## Appendix A (continued)

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### **Objectives 9 and 10** – N/A

### **Objective 11**

- General Ledger for July 1, 2015, through June 30, 2016 (provided by Budget Prepay) for each of the following categories:
  - Data Processing
  - Customer and Subscriber Notifications
  - Accounting
  - Service Representative Costs
  - Professional Fees
- Reimbursement Claims for July 1, 2015, through June 30, 2016 (obtained from the CPUC), specifically lines 6 and 7
- Seventeen invoices obtained from Budget Prepay based on a sample selected by the State Controller's Office from the company's General Ledger

### **Objective 12**

- List of rate plans approved by the CPUC for Budget Prepay during the period of July 1, 2015, through June 30, 2016
- List of rate plans offered by Budget Prepay during the period of July 1, 2015, through June 30, 2016

### **Objectives 13, 14, and 15** – N/A

### **Objective 16**

- Detailed WAR for July 1, 2015, through June 30, 2016 (obtained from the CLA)

### **Objective 17** – N/A

## Appendix B— Summary of Engagement Procedures July 1, 2015, through June 30, 2016

Engagement Objectives and Criteria	Engagement Procedures	
<p><b>Objective 1</b> – Determine whether the wireless carrier included in its claims only those subscribers who were approved by the California LifeLine Administrator for meeting the eligibility criteria for obtaining and retaining California LifeLine benefits. (California Public Utilities Commission’s [CPUC] General Order [GO] 153, section 5 [Eligibility Criteria for Obtaining and Retaining California Lifeline])</p>	<p><u>Internal Control Testing</u> – Document the carrier’s process to ensure subscriber eligibility and detect/prevent ineligible subscriptions. Select a sample of active subscribers and test controls.</p>	<p><u>Substantive Testing</u> – Identify subscribers with renewal dates within the audit period and verify that they were appropriately renewed/recertified. Determine impact of subscribers incorrectly remaining active.</p>
<p><b>Objective 2</b> – Determine whether the wireless carrier had effective monitoring controls in place to identify obvious instances of incorrectly claiming against the California LifeLine Fund for costs of providing the California LifeLine discount to more than one economic household at the same address. (CPUC’s GO 153, section 5.1.7 [Eligibility Criteria for Obtaining and Retaining California LifeLine])</p>	<p><u>Internal Control Testing</u> – Document carrier’s process for detecting/preventing &gt; 1 eligible subscriber at the same service address. Use third-party administrator reports to identify &gt;= 5 subscribers at the same address and test for properly filed Head of Household Worksheets. Identify any egregious exceptions found.</p>	<p><u>Substantive Testing</u> – None</p>
<p><b>Objective 3</b> – Identify and document the internal control processes and procedures used by the wireless carrier to ensure timely compliance with applicable program requirements for disconnecting inactive accounts/subscribers. (Title 47, <i>Code of Federal Regulations</i>, section 54.405(e)(3) [Carrier Obligation to Offer Lifeline – De-enrollment for non-usage])</p>	<p><u>Internal Control Testing</u> – Document carrier’s process for ensuring that active subscribers meet usage requirements and inactive subscribers are removed from the weighted average number of subscribers’ calculations. Test carrier’s process for disconnecting inactive subscribers.</p>	<p><u>Substantive Testing</u> – None</p>
<p><b>Objective 4</b> – If the engagement reveals overclaimed amounts of California LifeLine support from the California LifeLine Fund, provide a brief description of each occurrence and the overclaimed amount for each claim period, and calculate interest from the date of payment through the issuance date of the final engagement report. ([CPUC’s GO 153, section 13.4 [Audits and Records])</p>	<p><u>Internal Control Testing</u> – None</p>	<p><u>Substantive Testing</u> – Determine interest owed on any overclaimed amounts from the date(s) that payment was made by the CPUC.</p>

## Appendix B (continued)

Engagement Objectives and Criteria	Engagement Procedures	
<p><b>Objective 5</b> – Determine the fiscal effect for the examination period of incorrectly claiming reimbursement of the \$39 from the California LifeLine Fund for connection or conversion charges of California LifeLine subscribers who failed to qualify for or were removed from the California LifeLine program. (CPUC’s Rulemaking Decision [D.] 14-01-036 Conclusions of Law No. 41)</p>	<p><u>Internal Control Testing</u> – None</p>	<p><u>Substantive Testing</u> – Review new connection reports and identify qualifying subscribers. Request the first-call date for these subscribers. For those that did not make a first call, determine the impact on the claims filed.</p>
<p><b>Objective 6</b> – Determine the fiscal effect for the examination period of correctly claiming reimbursement for the discount for the pre-paid telephone service based on the date of approval notification or the date California LifeLine or federal LifeLine service was activated, whichever is later. (CPUC’s Rulemaking D. 14-01-036, section 4.19 [Prequalification Exemption for Pre-Paid Wireless Telephone Services] and Conclusions of Law No. 41)</p>	<p><u>Internal Control Testing</u> – None</p>	<p><u>Substantive Testing</u> – Compile a list of all unique subscribers from the examination period’s reports from the Weighted Average (WAR) Reports system. Compare the first-call date to the approval date and determine which is later. Calculate the correct weighted average for the month based on the later date and determine any overages. Also calculate all weighted average amounts claimed prior to the determined latest date. Calculate the overage amounts and impact on filed claims.</p>
<p><b>Objective 7</b> – Determine whether the wireless carrier correctly claimed reimbursement for providing the California LifeLine discount on recurring charges. (CPUC’s Rulemaking D. 14-01-036, Ordering Paragraphs [OP] 7 and 8 and Specific Support Amount Administrative Letter dated October 26, 2015).</p>	<p><u>Internal Control Testing</u> – Document carrier’s process for preparing reimbursement claims. Review all claim forms for the examination period to determine that all required elements were properly completed.</p>	<p><u>Substantive Testing</u> – Determine whether the carrier correctly claimed reimbursement for providing the California Lifeline discount for recurring charges.</p>
<p><b>Objective 8</b> – Determine whether the wireless carriers correctly claimed reimbursement of \$39 per participant for providing the California LifeLine discount on connection and activation charges. (CPUC’s Rulemaking D. 14-01-036, OP 10).</p>	<p><u>Internal Control Testing</u> – None</p>	<p><u>Substantive Testing</u> – Verify that the carrier claimed reimbursement of \$39 for connection and activation charges only for subscribers that made a first call.</p>

## Appendix B (continued)

Engagement Objectives and Criteria	Engagement Procedures	
<p><b>Objective 9</b> – Determine whether the wireless carrier correctly claimed reimbursement for the public purpose program surcharges, CPUC user fee, federal excise tax, local franchise taxes, and State 911 tax that California LifeLine subscribers were exempt from paying. (CPUC’s Rulemaking D. 14-01-036, section 4.12 [Taxes and Surcharge Exemption, page 85] and CPUC’s GO 153, section 8.1.9 [California Lifeline Rates and Charges])</p>	<p>This test is N/A for Budget Prepay.</p>	<p>This test is N/A for Budget Prepay.</p>
<p><b>Objective 10</b> – Determine whether the wireless carrier paid the appropriate taxing authorities the applicable taxes, fees, and surcharges reimbursed from the California LifeLine Fund if the wireless carrier received reimbursement from the California LifeLine Fund for federal excise tax, local taxes, fees, and surcharges pertaining to the California LifeLine discount and claimed that they paid subscribers. (CPUC’s GO 153, section 8.1.9.2 [California Lifeline Rates and Charges])</p>	<p>This test is N/A for Budget Prepay.</p>	<p>This test is N/A for Budget Prepay.</p>
<p><b>Objective 11</b> – Determine whether the wireless carrier claimed reimbursement for administrative expenses, which are clearly not incremental expenses. (CPUC’s Rulemaking D. 14-01-036, section 4.4 [Monthly Service Rate Caps and Maximum Monthly Reimbursement Amounts for California Lifeline Wireline], Footnote 22 and the CPUC’s Rulemaking D. 10-11-033, OP 18)</p>	<p><u>Internal Control Testing</u> – If the carrier claimed incremental administrative expenses, determine the process for claiming such expenses. Ask the carrier to list what it considers to be administrative costs and compare to CPUC guidelines for qualified administrative expenses.</p>	<p><u>Substantive Testing</u> – Confirm that the carrier claimed allowable or actual incremental administrative costs. Select a sample of claims and request/review documentation from the carrier to determine whether administrative expenses claimed are reasonable and appropriate. If not, compare the calculated cost per subscriber to the claimed amount and determine the impact on claims filed.</p>

## Appendix B (continued)

Engagement Objectives and Criteria	Engagement Procedures	
<p><b>Objective 12</b> – Determine whether the wireless carrier offered plans approved by the CPUC. (CPUC’s Rulemaking D. 14-01-036 section 4.7 [Comparing the Current California LifeLine Program and the Next Stage California LifeLine Program Adopted in this Decision]; OP 18; and OP 24, subparagraph [b][iii])</p>	<p><u>Internal Control Testing</u> – Obtain from the CPUC all plans approved for the wireless carrier for the examination period and obtain from the wireless carrier all plans offered to subscribers during the examination period. Compare the two lists and note any discrepancies.</p>	<p><u>Substantive Testing</u> – None</p>
<p><b>Objective 13</b> – Determine whether the wireless carrier correctly provided a discount on their nonrecurring service connection charge for the initial activation of a single wireless phone connection for the approved California LifeLine subscribers (California LifeLine Connection Charge) per the CPUC’s Rulemaking D. 14-01-036, Conclusions of Law No. 41</p>	<p>This test is N/A for Budget Prepay.</p>	<p>This test is N/A for Budget Prepay.</p>
<p><b>Objective 14</b> – Determine whether, before providing the California LifeLine discount, the wireless carrier charged the same nonrecurring and recurring service rates for both California LifeLine subscribers and other retail customers. (CPUC’s GO 153, section 8.4 [California Lifeline Rates and Charges])</p>	<p>This test is N/A for Budget Prepay.</p>	<p>This test is N/A for Budget Prepay.</p>
<p><b>Objective 15</b> – Determine whether the wireless carrier correctly provided a discount on their qualifying wireless telephone service plans for California LifeLine subscribers for recurring charges. (CPUC’s Rulemaking D. 14-01-036, section 4.10 [California LifeLine Wireless Reimbursement Amounts and Methodology])</p>	<p>This test is N/A for Budget Prepay.</p>	<p>This test is N/A for Budget Prepay.</p>

## Appendix B (continued)

Engagement Objectives and Criteria	Engagement Procedures	
<p><b>Objective 16</b> – Determine the fiscal effect for the examination period of wireless carriers that did not disconnect subscribers with inactivity (no service used) during a continuous 90-day period within the required timeframes. (Title 47, <i>Code of Federal Regulations</i>, section 54.405(e)(3) [Carrier Obligation to Offer Lifeline – De-enrollment for non-usage])</p>	<p><u>Internal Control Testing</u> – None</p>	<p><u>Substantive Testing</u> – Using the monthly WAR reports, determine all subscribers with a disconnection date &gt; 90 days after their last call date. Recalculate the correct WAR amount for these subscribers and determine any overages based on the amounts claimed. Calculate the total for all subscribers and determine the impact on filed claims.</p>
<p><b>Objective 17</b> – Determine whether the wireless carriers incorrectly charged California LifeLine subscribers for the public-purpose program surcharges, federal excise tax, local franchise taxes, the state 911 tax, and the CPUC user fee on subscribers’ intrastate California LifeLine billing. (CPUC’s Rulemaking D. 14-01-036, Conclusions of Law No. 32)</p>	<p>This test is N/A for Budget Prepay.</p>	<p>This test is N/A for Budget Prepay.</p>

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